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23 October 1962

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Possible Economic Measures in the Cuban Situation

This memorandum will describe alternative courses of action of an economic nature designed to increase the pressure for removal of offensive weapons from Cuba.

While a wide range of measures is available for consideration, none of these would have any significant immediate effect on the Cuban economy, and the effects vary inversely with the complexity of the course of action. In fact, nothing short of direct attacks on Cuban resources (crop destruction, contamination of raw materials by sabotage, etc.) would produce immediate and drastic results, and all of these measures seem less desirable than direct overt military action.

Since Cuba is not directly involved in military action, imposing a heavy drain on its resources generally, cutting off supplies from outside Cuba produces only delayed effects. Cuba has already been forced to achieve a degree of autarky. Cuba's exports dropped from an estimated \$735 million in 1958 to an estimated \$530 million in 1962, of which all but \$100 million are from the bloc. The imports have gone from \$855 million in 1958 to an estimated \$645 million, of which all but \$120 million are from the bloc. By the end of 1961, Cuba's convertible foreign exchange resources were virtually exhausted. Her principal exports are sugar (30%), tobacco, nickel, and manganese ores. Principal imports are POL, all of which now comes from the Soviet Union. In 1961 about \$100 million in raw materials and machinery were imported from the Free World other than the U.S.

The net inflow to the Cuban economy from Guantanamo operations amounted to \$11.3 million in FY 1962, substantially all of which went for pay to Cuban workers.

The principal economic alternatives available are extension of the present quarantine, measures to discourage Free World trade with Cuba and the availability of Free World bottoms for charter, and certain miscellaneous measures described below.

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The effects of a denial of POL would be felt in 60-180 days in various sectors of the economy (see Attachment A). These effects could be augmented by sabotage of internal resources, although the Cubans might be able to shift to some extent to alcohol produced from sugar.

One possibility to be considered is a complete blockade covering all goods except food and medicines, which might be supplied by the U.S. A 23 October CIA estimate, however, concludes that such a blockade would be unlikely to change significantly the general pattern of political alignments, and would, of course, at the same time have maximum irritating effect on the Alliance.

No quantitative information is yet available on the effect of quarantine operations on commercial insurance underwriters. The DIA reports that operators are being squeezed between the maritime unions, which are demanding risk bonuses, and the insurance underwriters. A Honduran flag ship unloading at Guantanamo in the last 300 days apparently demanded a bonus of \$14,000. Whether the risk is assessed as high for ships going through the U.S. quarantine is questionable. But even a single incident would be expected to inflate costs substantially. DIA is continuing to pursue this matter. State is preparing an Executive Order (see Attachment B) that will deny entry into U.S. ports to vessels in bloc trade with Cuba during the same voyage, and that will exclude all the vessels of any company that charters any of its vessels for bloc arms trade. This order might be extended to apply the same drastic exclusion to companies any of whose vessels engage in any trade with Cuba; but again the adverse reaction seems to outweigh the benefit.

A ban on bunkering by U.S. oil companies of vessels engaged in the Cuba trade would have limited effectiveness unless British Shell is excluded, since Shell has ample bunkering facilities in the Caribbean area. It is also possible for vessels to double-bunker in Europe to cover a round trip to Cuba, topping off in Cuba, if necessary, for the return voyage. An effective ban on POL to Cuba would make topping off more difficult.

A number of other more complex devices are available to reduce free world trade with Cuba, including application of present controls on U.S. companies to overseas subsidiaries of U.S.

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companies (as in the case of control of trade with Communist China). The Battle Act, which prohibits countries receiving U.S. foreign aid to engage in strategic trade with Iron Curtain countries could be applied to Cuba and strictly enforced. And the Trading with the Enemy Act could be employed to blacklist foreign firms trading with Cuba or to block their assets in the U.S.

U.S. air traffic to and from Cuba is currently banned by Cuban Government order. A similar order could be made by the U.S. Government.

U.S. communications companies could be prohibited from handling Cuban traffic. This prohibition could be quite effective, since nine of the ten external cables could be controlled directly or under the Trading with the Enemy Act, and the remaining cable is British controlled.

The Soviet Union still retains a number of U.S. Lend Lease ships. So far, negotiations have failed to produce a settlement for the value of these ships. Under the Lend Lease Agreement, the Soviet Union promised to return all defense articles transferred to them if the President of the U.S. finds them to be useful in defense of the U.S., or the Western Hemisphere, or otherwise of use to the U.S.A. The Soviet Union maintains that the vessels would not be "useful in the defense of the U.S. or the Western Hemisphere or otherwise of use to the U.S." Nevertheless, the U.S. still has a claim to these ships. There is some question as to whether unilateral action at this time would conform to the requirements of International Law, without one further demand for their return. A measure that could be taken now would be to make such a demand, with an announcement that if the demand were not met within x days, any ship falling within the class would be subject to seizure. Such a move, coupled with moves to cut off free world charters, would increase the pressure on Soviet shipping. The Soviet Union now has 83 U.S. Lend Lease ships aggregating some 530,000 tons and 10-12% of their total merchant tonnage, estimated at about 4.5 million tons.

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 Some significant pressure might be exerted on the Soviet tanker fleet. The Soviet Union is now using 20% of their tender capacity, estimated at 250 tankers aggregating about 3 million tons, in carrying POL to Cuba. If we can deny to them the use of Free World tankers, they would have to use 40-45% of their total tanker capacity to supply Cuba at present rates, but this step could be accomplished only if Western shipping countries would agree to hold their chartering to the bloc to the present worldwide level -- which seems an unlikely agreement.

In summary, the only significant step that seems worth considering at this point is the extension of the quarantine to cover POL, and even this step has the disadvantage of being aimed more at the Cubans than at the Soviets, as well as producing some substantial irritation within the Alliance and some sympathy for the Cubans as victims of the U.S. A selective quarantine, say on aviation gas, might be less objectionable on these grounds, but its effects should be proportionally less rapidly felt and widespread. Such a selected ban would also require sabotage of Cuban refineries.

In general, these economic measures would appear to insure only an escalation of our objectives while reducing the means available to accomplish them.

Adam Yarmolinsky

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Petroleum

Industry, transportation and the Cuban military machine are dependent on petroleum. Ninety-nine per cent of petroleum needs are provided by imports from the Bloc. The transportation sector (including military uses, which are increasing) takes 40 per cent of petroleum production, electric power takes 25 per cent, and the remainder is used by industry.

Consumption in 1961 was about 77,000 barrels per day and has risen to 90,000 barrels daily in 1962. Storage is maintained at a high level and would provide petroleum products for some 75 days at current rates of consumption. Under stringent conservation practices, this period might be stretched to six months.

Of the six refineries in Cuba, the Esso, Shell, and Tampion plants are the only refineries of commercial importance. They have a total capacity of about 83,000 barrels per day. Replacement of parts has been a severe problem, but the regime with Bloc and some free-world cooperation has been able to obtain critical items from abroad, and there is some limited domestic production of parts.

Resume of estimates of present stocks follows.

Cuban POL

Estimated Days Supply at Current Rate of Demand

Gas (motor, aviation, jet fuel)	60
Residual Fuel	
Power Plants ^{a/}	113
Industry	100
Other uses	140
Diesel Fuel	
Transportation	60
Agriculture	60
Other	180

Storage Capacity (Millions of Barrels)

Product Storage Capacity	7.8
(Assumed to be 2/3 full)	5.2
Crude Storage Capacity	1.7
(Assumed to be 2/3 full)	1.1
(of which 90% estimated refined)	1.0
Total Products Available	6.29
Gas (20%)	1.24
Residual (60%)	3.72
Diesel (10%)	.62
Other (10%)	.62

^{a/} Electric power production is almost wholly dependant on use of fuel oil.